

CITY OF SOMERVILLE, MASSACHUSETTS
SOMERVILLE AFFORDABLE HOUSING TRUST FUND
JOSEPH A. CURTATONE
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Daniel LeBlanc
Beth Munroe-Howe
Eleanor Rances
Andrea Shapiro
Lisa Davidson
Mark Niedergang

Somerville Affordable Housing Trust Fund - Request for Information
Due by noon on Monday November 24, 2014

Name of Agency: Somerville Community Corporation, Inc.

Contact (name, phone number and email address) at Agency for the Program:

Scott Hayman, Director of Real Estate, Cell phone: 508-635-7109. Landline: 617-776-5931 x 227.

Email: shayman@somervillecdc.org.

Estimated CPA Request: \$810,500 (6 months); \$1,621,000 (full year)

Estimated Trust Fund Request: \$ some portion of above

Other anticipated or secured funding sources:

6 Months, 10 Units 3 at 80% of AMI, 7 at 100% AMI	MHIC/MHP	CPA/TRUST FUND SUBSIDY	OTHER SOFT FUNDS	TOTAL
Acquisition/Improvements	\$2,088,692	\$710,500		\$2,799,192
Contracted Staff (SCC)	-0-	\$50,000*	*	\$50,000
Contracted Professionals	<u>-0-</u>	<u>\$50,000*</u>	<u>*</u>	<u>\$50,000</u>
TOTAL	\$2,088,692	\$810,500		\$2,899,192
• Still seeking other soft fund sources. If available, CPA/TRUST reliance would decrease.				

Project description (please include information on the number of units, tenure type and area median income to be served):

Somerville 100 Homes-Small Property Program

In the next five years Somerville will become one of the best served, transit oriented communities in Metropolitan Boston with the addition of four new MBTA Transit stops. The promise of new, convenient and easy connections to Metropolitan Boston, from nearly every location in Somerville, combined with strong political leadership, excellent community planning, a burgeoning creative economy, a vibrant cultural and higher education environment, and an impressive working class foundation, is causing significant upward pressure on Somerville's housing market. Many long time Somervillians and newcomers alike are concerned about being priced out by the very success they are creating. While continued positive market housing forces

are welcome, the goal of the 100 Home program is to act now to insure that a sufficient amount of the housing stock is secured from these market forces and set aside for future middle income and moderate income households, who may be priced out of the very community they helped or could help to shape.

The uniqueness of the 100 Homes program is that it attempts to rely less on traditional, highly regulated state and federal resources for affordable housing, which are scarce and much needed for very low and extremely low income households. The 100 Homes Program, instead, will secure housing that will remain affordable to middle and moderate income households for now and for future generations with a blend of local Community Preservation Act and Affordable Housing Trust funds. The program will also utilize flexible acquisition loan funds provided by the Massachusetts Housing Partnership and Housing Investment Corporation.

The design of the 100 Homes Legacy program is purposefully lean, flexible and close to the market. It is also time limited and meant to achieve its purpose only as long as the market forces are supportive. The 100 Homes program involves acquiring existing one, two and three family homes at current, fair market prices, making only modest and necessary improvements to the units and then making the units available for rent to households earning 80% to 110% of Area Median Income (AMI), which, for a family of four ranges from \$63,500 to \$94,100.

The table above outlines the lending and subsidy resources needed to take the first step in securing up to ten units for the program, 7 of which would be reserved for rent to households earning up to 100% of AMI or, for a family of four \$94,100, and 3 of which would be reserved for households earning up to 80% of AMI or \$63,500 for a family of four.

Project timeline description:

SCC has worked closely with the City, Massachusetts Housing Investment Corporation, East Boston Savings Bank, Rockland Trust, Mass Development and other acquisition and permanent lenders, all of whom have stated they are poised to move forward with this program. SCC has also had numerous discussions with local owners of properties who have expressed an interest in selling their properties to SCC with an understanding of the mission of this program. Many are willing to convey properties to SCC for “fair market price” and forego advertising their property on Multiple Listing Services. **With a commitment of CPA/Trust subsidy, SCC would immediately begin acquiring properties.**

Project Status (option to purchase signed, site control, One Stop submitted, early conversations, etc):

Upon award of some or all of CPA/Trust Subsidy SCC will immediately commence purchasing of properties for the 100 Homes program.

Somerville 100 Homes-*Small Property Program*

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The basic underwriting assumptions for lending and subsidy requirements for the first ten units include the following:

MHIC/MHP Acquisition/Improvement lending	<ul style="list-style-type: none"> • Revolving Credit line for purchase of up to 10 units at a time until permanent take-out by local, regional banks. • Up to \$15,000 per unit for improvements (units must be move in condition/no major capital needs) • \$10,000 per unit in transaction/soft costs (legal, appraisal, inspections, etc).
CPA/Trust Funds	<ul style="list-style-type: none"> • Funds to be available at point of purchase and will remain as permanent subsidy in form of subordinate, deferred payment loans. • Funds enable rent stabilization for moderate and middle income families. • Funds also serve to satisfy permanent lenders' Equity and Loan to Value requirements (80% LTV).
Permanent Loan Terms/underwriting	<ul style="list-style-type: none"> • 80% LTV, 30 Year amortization, 5 year terms. • 5% vacancy • \$7,000 per unit annual operating expense • 1.15 Debt Service Coverage • 3 BR rent levels ranging from \$1,650 to \$2,400 monthly set to 80% to 100% AMI affordability standards.
Management of Units	<ul style="list-style-type: none"> • \$7,000 per unit for operating funds to pay for professional property management, taxes, insurance, water, sewer, legal.

Operation and Administration of the Program

The expense to administer and operate the program for 6 months is estimated at \$50,000. The administration and operation of the program would be accomplished through a full-time contracted staff position at SCC. The contract staff would be responsible for the following:

- Work with realtor community and network in community to find properties that meet threshold standards for purchase and ownership.
- Schedule and conduct property viewings
- Perform property assessments with construction advisors and other professionals
- Complete underwriting and development pro forma
- Provide reports and data suitable for recommending purchase of properties.
- Execute Purchase and Sales agreements
- Organize and oversee purchase of properties.
- Administer income certifications/qualifications of existing and prospective tenants

- Oversee and accomplish marketing of affordable units to income qualified tenants with City of Somerville.
- Arrange for property purchase closings
- Solicit local pool of contractors to perform basic improvements
- Apply for and secure permanent loans for properties
- Arrange permanent closings

\$50,000 Pre-development Expenditures

It is expected that a certain amount of professional services will be needed to accurately and confidently assess properties for acquisition and that some of these costs will not be recoverable. The most obvious service need is for property inspection services. It is highly recommended that an initial pool of “soft funds” in the amount of \$50,000 be set aside for these services and others required to properly assess a property’s suitability for the program. While these service costs can be rolled into a property’s permanent financing if the property is selected for the program, and therefore recovered for future inspection service costs, in other cases a property will be inspected and then deemed unsuitable for the program, at which point the cost would not be recoverable. It is recommended that a portion of the \$50,000 pre-development funds be “forgivable” or deferred payment with no interest.

3-5 year Exit Strategy Considerations

As the program progresses it is anticipated that properties purchased and rent-stabilized by SCC may best be repositioned as affordable homebuyer properties. In other cases certain of the properties may be sold to for-profit, owner-operators with continuing affordability restrictions or become good candidates for additional affordable housing program investment and financing that would enable capital improvements and/or deeper affordability restrictions. At these junctures, some or all of the CPA or Trust fund subsidies may be recycled back into the program.

Attachment:

Sample Small Property Underwriting Template for 3 family, 3-BR property, targeting 1 unit for rent to 80% AMI family and 2 units for rent to 100% AMI family.

SAMPLE SMALL PROPERTY 1 at 80% and two at 100% AMI
TENURE: Rental

DATE: 1/0/00
BUDGET STATUS: Preliminary

DEVELOPMENT USES	Total	per unit		SOURCES	Construction	Permanent	per unit	NSLF ACQ/CONST LOAN
Acquisition price	735,000	245,000		Local AHT/CPA	187,000	203,000	67,667	Amount 623,490
Construction Costs	45,000	15,000		Pool	623,000		-	Interest Rate 5.50%
Construction Contingency	-	-	0.0%	Other				Term (months) 6
Soft Costs	30,000	10,000						
Public Infrastructure	-	-		Rebates Energy				ADVANCES Date Amount
Acq/Const Loan Interest	17,336	5,779		Interest accrued	17,336			Pool Advance
Operating Reserve	-	-		Reserve deferred				Pool Adv. 10/1/2014 623,490
Developer Fee	-	-	0.0%	Dev. Fee deferred				NSLF #2 3/1/2011 -
Developer OH	-	-	0.0%	Permanent Loan	-	623,490		NSP #1 4/1/2015 623,490
TOTAL USES	827,336	275,779		TOTAL SOURCES	827,336	826,490		Perm mortgage 4/1/2015 623,490
				surplus/(deficit)	-	(846)		

UNIT TYPE	Set Aside	Units	Rent	Annual		Gross Rent	Utilities	Net Rent	% of Max	RENT	Market	% of Mkt
2 BR	50% AMI		-	-		-		-	90%	-	750	0%
2 BR	120% AMI		-	-		-		-	95%	-	750	0%
3 BR	80% AMI	1	1,568	18,810		1,650	-	1,650	95%	1,568	2,400	65%
3 BR	100% AMI	2	2,280	54,720		2,400		2,400	95%	2,280	2,400	95%
3 BR	Market		-	-		-		-	95%	-	850	0%
TOTAL		3		73,530								

FIVE YEAR OPERATING PRO FORMA						
	trending	1	2	3	4	5
Gross Rental Inc	2.0%	73,530	75,001	76,501	78,031	79,591
Vacancy	5.00%	3,677	3,750	3,825	3,902	3,980
Net Rental Income		69,854	71,251	72,676	74,129	75,612
Net Com. Income	less 10% vac per unit		-	-	-	-
Operating Expenses	7,000 3.0%	21,000	21,630	22,279	22,947	23,636
Net Operating Income		48,854	49,621	50,397	51,182	51,976
Debt Service		42,481	42,481	42,481	42,481	42,481
Net Cash Flow		6,372	7,139	7,915	8,701	9,495
Debt Service Coverage		1.15	1.17	1.19	1.20	1.22

AFFORDABILITY			
80%	100%	Total	Required
1	2	3	0
Low-income expenditure			-

NOTES:

PERMANENT RENTAL LOAN	
Lender	
Amount	623,490
Interest Rate	5.50%
Amortization	30
DSC Required	1.15
Annual Debt Service	42,481

SALE TO HOMEBUYER	
not applicable	
Appraised Value	
Sale Price	
Net Sales Proceeds	
Market Subsidy	-
Mortgage Writedown	
Downpayment Assistance	-
TOTAL ASSISTANCE AMOUNT	-

SUPPORTABLE DEBT	
Net Operating Income	48,854
Available for Debt Service	42,481
Supportable Debt	623,490

HIGH HOME	studio 1042	one 1164	two 1408	three 1619	four 1786	five 1952
LOW HOME	856	917	1101	1271	1418	1565

	MHIC/MHP Pool	CPA/TRUST	SCC Overhead/Staff	Pre-development	Total
Subsidy Need for 10 Units 3 at 80% AMI 7 at 100% AMI	\$ 2,088,692	\$ 710,500	\$ 50,000	\$ 50,000	\$ 2,899,192
Per Unit	\$ 208,869	\$ 71,050	\$ 5,000	\$ 5,000	\$ 289,919

Assumptions

Loan Pool Funds loaned at 5.5% for 6 months

CPA/TRUST Funds Come in at point of Purchase

3 Bedroom per unit purchase price of 245,000

80% AMI rent levels of \$1,650 underwritten at 95%

100-110% rent levels at \$2,400 underwritten at 95%

Per Unit Operating Costs of \$7,000 annually

Debt Service Coverage of 1.15 to 1.22 years 1-5

Vacancy Allowance of 5%

Per Unit Improvement Costs of \$15,000

No peeling paint

Avg per unit subsidy costs of \$71,50

Soft Costs per Unit of \$10,000

Staffing Costs is for 6 months

Predevelopment is revolving in cases where property is purchased

110% AMI Limits

\$ 72,457	\$ 82,808	\$ 93,159	\$ 103,510	\$ 111,791
\$ 6,038	\$ 6,901	\$ 7,763	\$ 8,626	\$ 9,316

Income Limit

	<u>1 person</u>	<u>2 person</u>	<u>3 Person</u>	<u>4 person</u>	<u>5 person</u>
50% AMI	32935	37640	42345	47050	50814
70% AMI unadjusted	46109	52696	59283	65870	71139.6
80% AMI HOME	47145	53880	60615	67350	72738
100% AMI HOME	65870	75280	84690	94100	101628
100% AMI Uadjusted	65870	75280	84690	94100	101628
110% AMI unadjusted	72457	82808	93159	103510	111790.8